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What is the Strategic Plan?

The Strategic Plan is based on an assessment of the Company. What is it doing? Where is it going? How can it get there? In response to these questions, the Strategic Plan sets broad goals and directions for BC Rail as a whole. It charts a path toward the Company's desired future position over the next three to five years.

Why does BC Rail need a Strategic Plan?

In recent years, BC Rail has continued to lose its traditional share of its primary markets.

Less traffic means lower revenue and a deterioration of the Company's financial results.

Fewer trains and less activity lowers the demand for railway labour. None of us want to see that happen.

Regulatory changes in the U.S. and Canada have resulted in the transportation industry moving from a regulated situation with protected markets to a more competitive, free-market environment. All carriers are changing to meet this challenge. BC Rail cannot afford to be left behind.

Today's competitive environment is tough and aggressive. This means continued price competition and a reduction in revenue for all carriers. BC Rail's average revenue for every ton-mile of freight has fallen by 16% over the past 6 years. Throughout the industry, this trend has forced all carriers to reduce costs and become more efficient to protect traffic and survive. This has led to downsizing of labour forces and the need to improve productivity for those remaining. The Strategic Plan is not another word for layoffs. It is about improving productivity and safeguarding the future for the overwhelming majority of BC Rail employees. It also means changing the way we do things.

Who else is affected?

The trucking industry is being hard hit too, and is largely responsible for the increased competition. Cut-throat competition between truckers has reduced prices,

allowing them to capture freight which used to travel by rail. Even when railways can match them on price, truckers frequently offer greater speed, reliability and flexibility.

Effects of deregulation and the Free Trade Agreement have also hurt Canadian railways, as the traditional East-West traffic patterns are now shifting to North-South. Part of BC Rail's traffic which used to be interchanged onto CN or CP now gets trucked to border points for transfer onto U.S. railways.

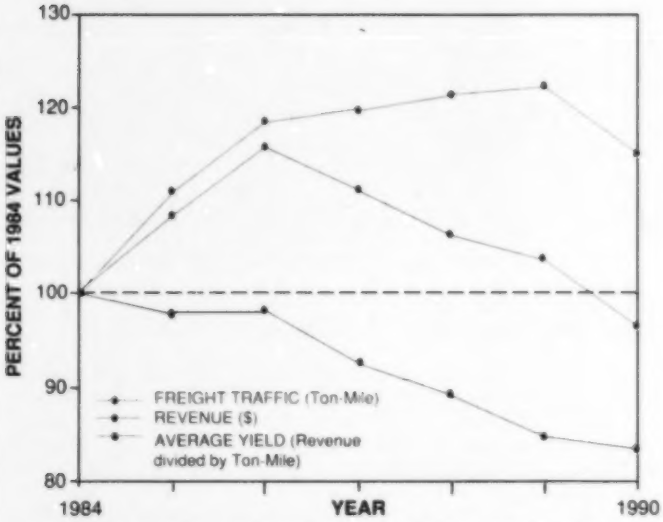
BC Rail depends highly on two commodity groups and is competing for market share within markets that are shrinking overall. The forest products industries are going through some of their toughest times and face more changes as environmental issues and concerns over fibre supply become more prominent. As well, there's uncertainty over the restructuring of Quintette Coal and renegotiated freight rates for hauling coal.

What about BC Rail's non-core areas?

Changes are occurring in the Company's non-core areas as well and offer new opportunities for growth. Intermodal Services, Passenger Services, Real Estate and Telecommunications have identified a number of potential opportunities. Opportunities for growth include expanding service in existing areas, and entering new areas. At the same time threats continue to grow. For example, a vigorous trucking lobby and the possible continued dereguiation of the Motor Carrier Industry would further affect market share growth potential for intermodal Services.

What can BC Rail do?

In order to attract and keep customers, BC Rail must offer competitive rates and provide excellent quality service. As prices get pushed down, the Railway must reduce costs to maintain some degree of profitability. Profits are important as the source of funds to reinvest in new cars, locomotives, track, buildings and other capital programs. Some basic cost cutting measures have already been made, but they're not enough.



Using 1984 as a base year, the graph shows the relative percentage change in three market factors. All dollars have been corrected for inflation. The effects of the 25 day strike have been normalized out of the 1990 figures.

Even though BC Rail continued to increase its freight traffic volume until 1989, revenue peaked in 1986 and has declined ever since. The average revenue received for each ton-mile of freight (average yield) has been dropping faster than the growth in traffic volume as the Railway cuts prices to compete. The decreasing yield line is expected to continue as competitive forces continue to put downward pressure on prices.

Productivity gains made so far at BC Rail compensate for less than half the reduced prices passed on to our shippers. At this rate, remaining profitable will become more difficult. BC Rail's ability to compete on price alone is nearing an end.

That's why the Company has developed a Strategic Plan. It's a plan that means changing the way things have been done in the past.

How was the Plan devised? Who was involved?

The process has been lengthy. It began in November 1990 with the President and Vice-Presidents, aided by two experts in the field of strategic planning. The first stage was to define a long term vision for the company. What type of company did BC Rail want to be?

To answer this question, it was necessary to assess what stage the Company was at. That's when a group of senior Managers joined the process as members of various strategic task forces. Together with staff, they examined their own areas to determine the important issues facing them. For example, the Rail Freight Service group studied its markets, facilities, track, and car and locomotive fleets. From these group sessions, key strengths and weaknesses, as well as potential opportunities and threats were identified. When the process was over, the Company had a clear picture of the areas it needed to focus on to achieve its desired position:

"In the next three to five years, BC Rail will diversify its revenue base and become a customer-focused, market-driven firm providing efficient and integrated services in Transportation, Real Estate, Telecommunications and related services."

How will BC Rail achieve this vision?

When the strategic task forces studied information on the Company, several key issues appeared. Goals were developed to address these key issues for the Company and each of the Business Units which consist of Rail Freight Services, Intermodal Services, Passenger Services, Real Estate, Telecommunications and International Rail Consultants. Next, specific strategies were developed to accomplish those goals. The goals are now the main thrust of the Strategic Plan. To achieve its desired position, BC Rail has determined that it must:

Become a leader in customer service through quality improvements

Develop the role of employees through improved communications and training

Create an open corporate environment to encourage employee participation in expanding and improving BC Rail's business

Promote skill and career development of employees by identifying their needs and providing appropriate training

Achieve ongoing cost reductions by improving productivity

Increase the contribution of non-railway areas by diversifying businesses such as Telecommunications, Real Estate and Intermodal

Develop new products and markets

Build new strategic partnerships and strengthen existing ones

Every Business Unit and every department throughout the Company will be putting each of these goals into action. The goals of the Strategic Plan and the

commitment to employees applies to every worker at BC Rail. The complete Strategic Plan was recently approved unanimously by the Company's Board of Directors. The following are examples of the kinds of activities that will take place.

ENHANCE CUSTOMER SERVICE:

Rail Freight will be tailoring its centrebeam and pulp car fleet to suit customer requirements. It will continue to look at ways to reduce transit times in getting products to market.

Passenger Services plans to develop service quality standards, upgrade the Budd cars, and improve station facilities at key locations.

INCREASE PRODUCTIVITY:

Rail Freight will look at ways to improve equipment and facility utilization. It will also identify changes in work methods to lower ongoing unit costs.

Intermodal Services plans to develop key indicators for monitoring productivity gains.

PURSUE STRATEGIC PARTNERSHIPS:

Intermodal Services will examine opportunities for alliances with other trucking companies to handle overnight services and to expand into new territory.

Commercial Telecommunications will continue to pursue its joint venture, with potentially big gains in business by providing long distance services.

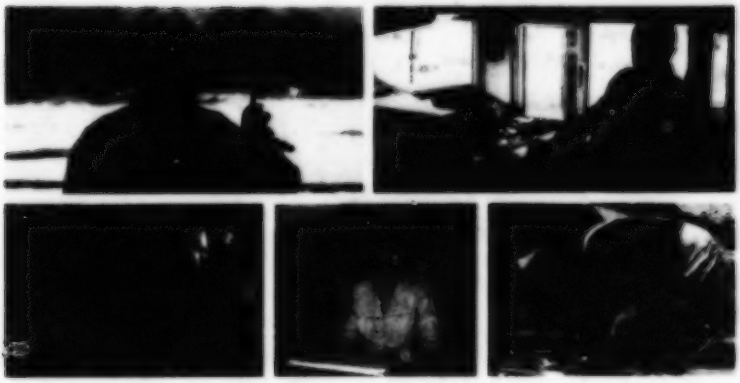
Real Estate will actively develop some of its properties by entering into joint venture types of agreements.

DEVELOP NEW PRODUCTS AND MARKETS:

Passenger Services has just launched its new "Summit Service" and will pursue development of Circle Tours and Cruise/Rail tour packages.

Intermodal wants to increase its northbound traffic in such items as liquid bulk, heavy equipment, and possibly municipal waste. It may also expand into a chip hauling and warehousing operation.

Commercial Telecommunications will introduce expanded, digital services and try to expand its license in B.C.



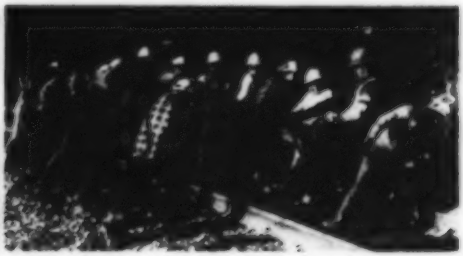
Rail Freight will aggresively seek out new business opportunities in shipping mine products. Development of port facilities at Squamish will be part of the Company's strategy to develop new alternatives to enhance its Rail Freight business.

PROVIDE FOCUSED COMMUNICATIONS, TRAINING AND SUPPORT:

All parts of the Company will be encouraged and supported through more open communications and skills training to help employees put Strategic Plan ideas to work.

What's in this for employees?

Job security is important to all of us. But there are no absolute guarantees in a changing world. The best chance employees have in achieving security is through improving the Company's success. Everyone's employment future is linked to how successful the Company is in making the Strategic Plan work. If the Railway succeeds, more freight will mean more trains. More trains will mean more jobs. More jobs will give employees the type of security they're looking for. But this relies on providing superior service to BC Rail customers at competitive prices.



The Strategic Plan does not mean a major shift in the Company's business. We will still be predominantly a freight railway company hauling primary processed natural resource products.

However, the plan does zero in on key aspects of our business to improve service and lower ongoing costs to ensure that we remain competitive.

The Strategic Plan is a blueprint, developed from considerable research, discussion and teamwork throughout the Company. It shows where and how our efforts should be concentrated to achieve maximum benefits. Some of the above strategies will help increase our success. Others will help us hold on to what we've got.

What can employees do to help?

Everybody plays a role in the Railway's success. That's why the Company needs everyone's participation. There are employees throughout the Company who probably see things that could be done more efficiently. These situations should be brought to light. Get involved. Find solutions. Make BC Rail a better place to work.

Every employee has customers, whether directly or indirectly. Providing service as promised, when promised, for the price promised will keep customers happy and will encourage them to continue using BC Rail. Everyone can share in this goal, no matter where he or she fits in the service chain.

Employees can help to reduce costs by increasing productivity. This means identifying and working to get rid of unproductive practices so that time can be spent on productive things.

Employees are encouraged to make their jobs more interesting and productive through these kinds of improvements. It's always more satisfying to do something better if it's the employee's idea instead of someone else's. The Company wants ideas to come from the bottom up. Many of these changes may be small and insignificant by themselves, but when added up, they could mean real cost savings and improved profitability.

What's the next step?

This booklet provides an introduction to the plan. You will learn the specifics in the upcoming months. The President, Vice-Presidents and a group of Managers will soon be touring throughout the system to discuss the plan, to ask for your direct input, to answer employee questions, and to provide you with commitments for your identified concerns. Also scheduled is a series of videos to give you more information on Strategic Plan initiatives. The Coupler newspaper will provide a regular update. Don't forget that your Manager was involved in development of the plan and can answer most of your questions.

Accomplishing goals won't happen overnight. The whole process will take three to five years.

We all have an interest in making the Strategic Plan work. We want to build a future that will make us proud. One that will be profitable and provide the greatest degree of job security possible in a world of changing challenges and increased competition.

Strategic Plan tour schedule

The following outlines the upcoming tour being led by the President, Vice-Presidents and a group of Managers. It gives you the opportunity to find out more about the Strategic Plan. Local Supervisors will advise you on which session to attend.

October 22	Chetwynd: One session (Includes Tumbler Ridge)
October 23	Fort St. John: Two sessions (Includes Dawson Creek, Buick, Gutah and Fort Nelson)
October 29-31	Prince George: Six sessions (Includes Fort St. James, MacKenzie and Tacheeda)
November 6	Lillooet: One session
November 7	Quesnel: One session
November 8	Williams Lake: Two sessions (Includes Exeter)
November 12, 13	Squamish: Four sessions (Includes Pemberton and Darcy)
November 18	BCRC: Two sessions
November 28, 29	North Vancouver: (Not BCRC) Four sessions (Includes Roberts Bank)
December 9, 10	BCRC: Four sessions

For more information, contact: Internal Communications, Loc. 5324 or Strategic Planning, J. Leighton, Loc. 5070 or F. Trotter, Loc. 5400